March 4, 2010

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Proposed Regulation 12 CFR Part 704

Dear Ms. Rupp:

We appreciate the NCUA Board's efforts to strengthen the Credit Union system. HawaiiUSA Federal Credit Union continues to be a strong supporter of the Corporate Credit Union System as demonstrated by our utilization of various products and services including check clearing, lines of credit, wire transfer, investments (overnight, short and long term), and investment safekeeping. We believe the NCUA should not attempt to minimize all risks but to allow the Corporates' to effectively manage their operations. If the proposed regulatory changes are enacted, we believe the restrictions may be too severe to allow any corporate credit union to offer products and services at a competitive price to Natural Person Credit Unions (NPCU) and to operate profitably to attain the capital necessary to comply with the proposed ratio levels.

We request that you review the following sections of the proposed regulation and consider revising or removing the sections as indicated:

<u>Section 704.8(c) Penalty for early withdrawals on corporate certificates</u>
Penalizing early withdrawals and eliminating the Corporates' ability to pay a premium on early withdrawals will force NPCUs to look outside the Corporate system for long-term liquid instruments, which would not punish them for early redemptions. Currently, Corporate investments offer higher yields compared to US agency-issued debt and can be structured to meet NPCU's asset/liability needs. We respectfully request that this provision be removed in its entirety and that the NCUA retain the current rule for certificate redemptions.

<u>Section 704.8(d), (e), (f) NEV Sensitivity Analysis</u>
The provisions included in the aforementioned sections may prevent the Corporates from earning sufficient interest margin to reach the capital requirements in the proposal. An unintended consequence could be that the Corporates increase member fees and charges to compensate for the loss of income. We respectfully request the following revisions:

- Revise Section 704.8(e) to require a Corporate to evaluate the risk in its balance sheet by measuring the impact of an instantaneous spread widening of both assets and liabilities by 100 basis points, on its NEV and NEV ratio. Additionally, the NCUA should consider a limited shock test (e.g. 50 basis points or 50 percent of the standard test) for government sponsored enterprise (GSE) debt.
- Revise Section 704.8(e)(1)(iii) to limit a Corporate's risk exposure to levels that do not result in a decline in NEV of more than 35 percent.

- Revise Section 704.8(f)(i) to exclude non-residential mortgage related asset-backed securities from the prepayment slowdown test and only apply the 50 percent slowdown test to mortgage backed securities.

Section 704.8(h) Weighted Average Asset Life
Under this provision, the weighted average life (WAL) of the Corporates' aggregate assets may not exceed two years. This will force the Corporate to issue short-term loans almost exclusively to ensure they remain below the two-year WAL ceiling. In essence, this provision eliminates the Corporates' ability to provide "cheap" liquidity to meet the short- and long-term needs of the credit union system. As a result, NPCUs would be forced to turn to "external" parties such as the Federal Home Loan Banks and bank competitors. We respectfully request the removal of the provision in its entirety.

In regards to the capital requirements:

Higher capital levels would provide Corporates greater ability to either sell securities at a loss when liquidity is needed, or to hold securities that cannot be sold for a fair value and therefore accommodate Other Than Temporary Impairments (OTTI). Higher capital levels would also enable Corporates to retain higher credit ratings which will help ensure the preservation of both member balances and external sources of liquidity.

Recommendations:

1) Establish risk-based capital requirements.

   Risk-based capital standards should be implemented in a manner consistent with other federally regulated financial institutions. Currently, financial institutions operating under Basel standards have broader investment authorities than Corporate Credit Unions. Holding Corporates to the same capital levels, without permitting them to have the same level of authorities, could lead to underperformance. If the NCUA restricts investment or other authorities of Corporates through regulatory changes, then capital requirements should be less than that required of other institutions governed by Basel standards. Considering the recent turmoil in the financial markets, it is anticipated that the existing Basel standards will change and this will require a further review if and when the Basel standards change.

2) Increase corporate Tier 1 capital (core capital).

   All Corporates should attain a minimum core capital ratio of 4 percent based on 12 month daily average net assets (DANA) by the end of 2010 and achieve higher minimum core capital levels in the future, consistent with Basel standards. Flexibility to accommodate the stressed balance sheet conditions of Corporates is necessary to build up to this capital level. A 4 percent core capital target is achievable across the network if Corporates deleverage their balance sheets (including, in certain cases, decreasing member term deposits) and obtain perpetual member-contributed capital.

A Corporate's retained and undivided earnings, together with its perpetual paid-in capital (PIC) shares, should constitute core capital. The NCUA should consider and provide guidance on the question of under what conditions, if any, non-perpetual PIC would be included in the calculation of a Corporate's core capital.

3) Retain existing Membership Capital Shares (MCS) but transition this to Tier 2 capital standards.

Membership Capital Shares are needed given Corporates' current capital levels. Allowing MCS to adjust with credit union balance sheets is necessary for the system and in times of tight liquidity, allows credit unions to have flexibility. The agency should allow Corporates the option of maintaining this capital structure to augment core capital in order to fund additional products and services.

To provide parity with other financial regulatory frameworks, the NCUA should modify the requirements for MCS so that such instruments would meet applicable Tier 2 capital definitional requirements. As total capital levels increase above capital requirements, Corporates should be able to retire MCS and designate PIC as the capital foundation. Assuming a Corporate meets its minimum capital requirements, delayed payout of capital is not warranted. Withdrawals should be restricted if a Corporate would fall below its capital requirement.

However, the proposal does not address the issue of the legacy assets of the Corporate credit union network, all of the national person credit unions will be affected if we are assessed additional insurance premiums. The assumption that natural person credit unions will be willing to recapitalize the Corporates may be optimistic. The business model that results from the proposed regulations must be price competitive and allow Corporates to build capital over ten years, which is unlikely.

Sincerely,

Karl Yoneshige
President & CEO

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